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Glossary of IFRS 17

48 terms simplified and categorized

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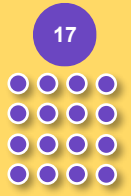
Jabran Noor, FIA



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Core Measurement Terms

Contractual Service Margin

Unearned profit component representing expected future profits from insurance contracts. contracts. Released to profit or loss loss as services are provided. Cannot be negative at inception inception (losses recognized immediately).

Contractual Service Margin in IFRS 17: because in a world of 'profit today, loss tomorrow,' it's good to have a cushion that says, 'Don't worry, I've got your back... for the next few years!'

Core Measurement Terms

Fulfillment Cashflow

The present value of future cash cash flows (inflows and outflows) outflows) plus a risk adjustment. adjustment. Comprises three building blocks: probability-weighted estimates of future cash cash flows, discounting adjustment, adjustment, and risk adjustment adjustment

Fulfillment cash flows: where the art of predicting future premiums and claims transforms uncertainty into calculated assurance, ensuring that every forecast is rooted in the present value of what lies ahead.

Core Measurement Terms

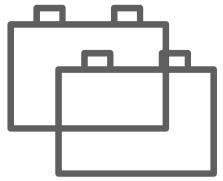
Risk Adjustment

Explicit adjustment representing compensation the entity requires for bearing uncertainty about amount and timing of non-financial risks. Must be disclosed as confidence level equivalent (e.g., 90%).

Risk adjustment: your financial safety net that turns uncertainty into a well-planned adventure!

Core Measurement Terms

Coverage Units



Quantity of insurance service provided by contracts in a group, used to determine CSM release pattern. Can be based on benefits, expected claims, premiums, or other reasonable metrics representing service provision.

Coverage units: the secret sauce that slices and dices profit recognition, ensuring each slice is just the right size!

Aggregation & Recognition

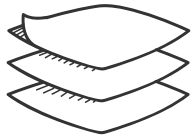
Portfolio

Group of contracts subject to similar risks and managed together as a single pool. First level of the three-tier aggregation hierarchy required by IFRS 17.

Portfolios: the ultimate mixer for insurance contracts – grouping by risk for smooth, collective measurement!

Aggregation & Recognition

Group of Contracts



Subdivision of a portfolio based on profitability at inception: (1) onerous, (2) no significant possibility of becoming onerous, and (3) remaining contracts. Second level of aggregation.

Group of contracts: the insurance ensemble where each risk hits the right note for seamless financial harmony!

Aggregation & Recognition

Annual Cohorts

Contracts issued no more than 12 12 months apart must be in separate groups. Third and most most granular level of the aggregation hierarchy

Annual cohorts: celebrating contracts born in the same year – a classic lineup that ages together beautifully!

Aggregation & Recognition

Contract Boundary

Point at which an entity can reassess risks and reprice contract to fully reflect those risks. Cash flows beyond the contract boundary relate to future contracts.

Contract boundaries: defining the edges of responsibility so you know exactly when to say 'that's outside my territory!

Measurement Model

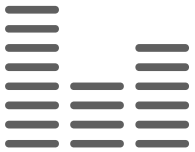
General Measurement Model (GMM)

Default measurement approach for all insurance contracts, using the building block approach: future cash flows + discounting + risk adjustment + CSM. Also called Building Block Approach (BBA).

GMM: the foundational framework under IFRS 17, transforming complex contracts into clear financial portraits!

Measurement Model

Premium Allocation Approach (PAA)



Simplified approach for short-duration contracts (≤1 year) or when reasonable approximation of GMM. Liability for Remaining Coverage similar to unearned premium, but with onerous contract test.

PAA: simplifying the insurance equation so premiums and claims can play nice without all the heavy actuarial math!

Measurement Model

Variable Fee Approach (VFA)

Specialized approach for contracts with direct participation features where policyholder returns are linked to underlying items. CSM adjusted for entity's share of underlying items.

VFA: the dance of direct participation contracts, keeping fees and policyholder returns in perfect rhythm!

Measurement Model

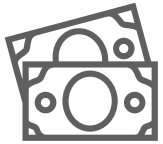
Direct Participation Features

Contracts where: (1) contractual terms specify participation in pool of underlying items; (2) entity expects to pay substantial share of returns; (3) substantial proportion of cash flows vary with underlying items.

Direct participation features: co-piloting returns for a journey where policyholders and insurers soar together!

Financial & Presentation Terms

Insurance Revenue

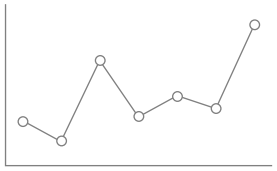


Recognized as coverage is provided, excluding investment components. Comprises expected claims, expenses, risk adjustment release, and CSM release for the period.

Insurance revenue: your steady stream of recognition for services, flowing smoothly one period at a time! No more written premium financial statements makeup!

Financial & Presentation Terms

Insurance Service Result



Insurance revenue minus insurance service expenses. Represents underwriting result, excluding any finance or investment components.

Insurance service result: the pure pulse of your insurance operations, driving performance without the fluff! Don't mix insurance and investments.

Financial & Presentation Terms

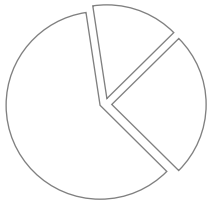
Insurance Finance Income / Expenses

Changes in carrying amount from time value of money, financial risk, and changes in discount rates. Can be presented entirely in P&L or split between P&L and OCI.

Insurance finance income/expenses: the time traveler of your balance sheet, where the past influences the present and the future pays off!

Financial & Presentation Terms

Investment Component



Amounts payable to policyholder regardless of whether insured event occurs. Must be identified and excluded from insurance revenue and expenses, even when not distinct.

Investment component: your premium's growth buddy, planting seeds for a financial harvest! Just account for it separately.

Liability Components

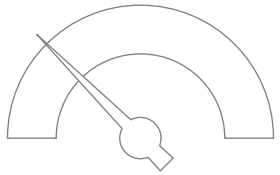
Liability for Remaining Service (LRC)

Obligation to provide coverage during unexpired portion of contract. Under GM includes FCF+CSM; under PAA uses premium-based approach (similar to unearned premium reserve).

LRC: your promise to cover future risks – it's like saving seats for tomorrow's show. In previous life showed up as UPR and AURR.

Liability Components

Liability for Incurred Claims (LIC)



Obligation for claims already incurred, including reported, incurred but not reported (IBNR), and settled but not paid. Measured as fulfillment cash flows (no CSM) under both GM and PAA.

LIC: Your reserve for claims that have already hit the books—getting ready for those bills waiting to be paid. In previous life, showed up as IBNR, IBNER and the family.

Liability Components

Loss Component

Tracks losses for onerous contracts, used to prevent double-counting of losses in subsequent measurements. Systematically allocated to reduce insurance service expenses.

Loss component: the early warning signal for contracts destined to struggle, capturing the future loss before it happens. No more deferring losses and wishing for favourable results.

Loss Components

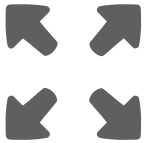
Loss Recovery Component

For reinsurance contracts held: adjustment to CSM to reflect recovery of losses on underlying contracts. Mirrors loss component in direct insurance but with opposite effect.

Loss recovery component: the comeback kid that reverses losses as time passes, turning anticipated setbacks into victory. The Board's Christmas gift they were not expecting!

Transition & Implementation

Full Retrospective Approach



Default transition method requiring application of IFRS 17 as if always applied. Requires complete historical data from contract inception and is often impracticable for older contracts.

Full retrospective: the time machine of accounting - restating the past with today's standards.

Transition & Implementation

Modified Retrospective Approach

Permitted when full retrospective approach is impracticable. Allows specified modifications to achieve closest outcome to full retrospective while using reasonable and supportable information.

Modified retrospective: a smart reset - adjust your starting balance without rewriting history.

Transition & Implementation

Fair Value Approach

Alternative transition method using IFRS 13 fair value principles. Determines CSM as difference between fair value of contracts and fulfillment cash flows at transition date.

Fair value: the market's price check—what your asset would fetch if the spotlight were right now.

Transition & Implementation

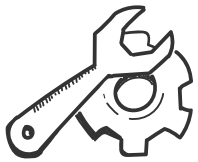
Risk Mitigation Option

Accounting option to reduce accounting mismatches when using derivatives or reinsurance to mitigate financial risks from insurance contracts, particularly for VFA contracts.

Risk mitigation option: your financial safety net helping you avoid pitfalls while keeping your bottom line steady.

Actuarial Terms

Confidence Level Approach



Risk adjustment methodology using statistical distribution of outcomes to determine value at specified confidence level (e.g., 75% confidence level means entity is 75% confident actual outcomes won't exceed the estimate).

Confidence level approach: providing a statistical backbone by indicating how likely it is that an estimate or prediction is accurate.

Actuarial Terms

Cost of Capital Method

Risk adjustment approach calculating present value of cost of holding capital to support insurance risks. Typically applies cost of capital rate (e.g., 6%) to projected required capital over contract life.

Cost of capital approach: figuring out the bare minimum your investments need to earn before they start demanding a raise!

Actuarial Terms

Experience Adjustment

Difference between predicted cash flows and actual cash flows in the period. Adjustments related to current/past service affect P&L immediately; adjustments related to future service adjust CSM.

Experience adjustment: it's like a reality check for your estimates, ensuring they get a dose of real-world wisdom.

Actuarial Terms

Locked-in Rate

Discount rate determined at initial recognition and used for CSM accretion and certain adjustments throughout contract life. Contrasts with current rates used for liability measurement.

Locked-in rate: your financial fortress against market chaos, keeping your rate safely imprisoned until maturity.

Technical Measurements

Onerous Contract Test

Assessment to identify contracts expected to be loss-making. Under GMM, automatically identified when FCF > 0. Under PAA, requires explicit test comparing LRC carrying amount to future fulfillment cash flows.

Onerous contract test: the accountant's way of saying 'This deal is costing you more than it's worth'—time to take that provision off the shelf.

Technical Measurements

PAA Eligibility Assessment

Analysis to determine if PAA is appropriate, based on coverage period (≤1 year) or whether PAA would produce measurement not materially different from GM. Often requires quantitative testing and documentation.

PAA Eligibility Assessment: The qualifying round to ensure your insurance contracts have what it takes to join the Premium Allocation Approach club under IFRS 17.

Technical Measurements

CSM Rollforward

Required disclosure showing reconciliation of CSM from opening to closing balance, including adjustments for new business, interest accretion, changes in fulfillment cash flows, and release to profit or loss.

CSM Rollforward: The accounting ballet where the Contractual Service Margin gracefully transitions from opening balance to closing balance complete with a few pirouettes for accretion and contract adjustments.

Technical Measurements

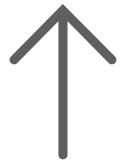
Insurance Acquisition Cashflows

Cash flows from selling, underwriting, and starting insurance contracts, including commissions. Allocated to groups of contracts and recognized as expense when related revenue is recognized.

Acquisition Cashflows: The upfront 'wooing' expenses to secure an insurance contract—because even policies need a little charm before saying 'I do' to your balance sheet.

Discount Rate Methods

Bottom-up Approach



Discount rate construction starting with risk-free yield curve, then adding illiquidity premium to reflect characteristics of insurance liabilities. Commonly applied for liabilities not dependent on asset returns.

Investing like a chef: focusing on the fresh ingredients—each stock—rather than the restaurant's menu

Discount Rate Methods

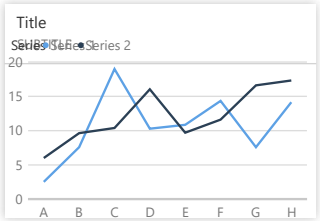
Top-down Approach

Discount rate derivation starting with total yield on reference asset portfolio, then eliminating factors not relevant to insurance contracts (e.g., credit risk). Often used for participating contracts.

The strategic bird's-eye view of investing: first analyze the global trends, then zoom in for the perfect stock choice!

Discount Rate Methods

Yield Curve



Set of discount rates across different time periods, reflecting term structure of interest rates. Separate curves typically developed by currency and liability characteristics.

The bond market's mood ring: a steep climb signals optimism, while an inversion may hint at a looming recession. Consult Mr. Merton before making any decision though!

Discount Rate Methods

Illiquidity Premium

Additional spread added to risk-free rates to reflect that insurance liabilities are typically illiquid. Quantifies difference between liquid and illiquid financial instruments with similar characteristics.

The compensation for tying up your cash in assets that require a 'Patience Required' sign before you can cash out.

Contract Analysis Terms

Unbundling

Process of separating distinct components from insurance contracts. Distinct investment components accounted under IFRS 9; distinct service components under IFRS 15; insurance components under IFRS 17.

Unbundling: The financial equivalent of a mixtape—letting customers choose their favorite tracks instead of forcing them to buy the whole album!

Contract Analysis Terms

Non-distinct Investment Component

Amount payable to policyholder regardless of insured event, but highly interrelated with insurance component. Not separated but excluded from insurance revenue and expenses (deposit component).

Non-Distinct Investment Component: The invisible seasoning in your insurance contract—blending returns so seamlessly that you can't tell where the investment starts and the policy ends.

Contract Analysis Terms

Embedded Derivative

Derivative within insurance contract requiring separation under IFRS 9 if not closely related to insurance host contract. Example: equity-indexed returns in fixed annuity contract.

Embedded Derivative: The financial ninja lurking within your contract, quietly ready to spring into action when it's time for accounting to reveal its hidden tricks.

Contract Analysis Terms

Contract Modification

Changes to contract terms requiring potential derecognition of original contract and recognition of new contract if specific criteria met. Significant modifications treated as extinguishment and new contract.

Like changing the terms of your Netflix subscription mid-binge—because who doesn't want to negotiate that 'No Commercials' clause?

Reinsurance Terms

Proportional Reinsurance

Reinsurance where ceding insurer and reinsurer share claims, premiums, and risks in fixed proportion. Examples include quota share (fixed percentage) and surplus treaties (above retention limit).

Proportional Reinsurance - the insurance version of splitting dessert i.e. sharing both the sweet profits and the bitter losses with your reinsurance buddy

Reinsurance Terms

Non-Proportional Reinsurance

Reinsurance where ceding insurer and reinsurer share claims, premiums, and risks in fixed proportion. Examples include quota share (fixed percentage) and surplus treaties (above retention limit).

Non-Proportional Reinsurance - The safety net that only works when you fall from the high dive, kicking in only after you've already made the leap and hit a certain loss level

Reinsurance Terms

Net Cost/ Gain

Reinsurance where ceding insurer and reinsurer share claims, premiums, and risks in fixed proportion. Examples include quota share (fixed percentage) and surplus treaties (above retention limit).

Net Cost / Gain - The final score in the game of risk-sharing—where you tally up the fun of premiums collected against the aches of claims paid!

Reinsurance Terms

Consistent Measurement

Principle requiring same assumptions for measuring reinsurance contracts held as used for underlying direct contracts, except for adjustments needed for counterparty credit risk and any terms specific to reinsurance.

Consistent Measurement: The financial ruler that ensures every inch of your assets is measured accurately—because in accounting, it's all about keeping things on the level!

Implementation & Audit Terms

Transition Date

Beginning of annual reporting period immediately preceding the date of initial application (January 1, 2022 for entities with calendar year reporting applying IFRS 17 from January 1, 2023).

Transition Date: The big moving day when all accounting practices pack up and shift into the new IFRS 17 neighborhood, ready for a fresh start!

Implementation & Audit Terms

Material Judgement

Areas requiring significant estimation or decision-making that substantially impact financial statements. Key audit focus areas include discount rates, risk adjustment methods, and contract boundaries.

Material Judgement: Like a detective solving a financial mystery—every clue (judgement) must be weighed carefully to avoid misleading conclusions!

Implementation & Audit Terms

Model Validation

Process of testing and verifying calculation engines used for IFRS 17 measurements. Includes unit testing, integration testing, scenario testing, and reconciliation to ensure accuracy.

Model Validation: Ensuring Accuracy, Upholding Trust.

Implementation & Audit Terms

Multi-GAAP Reconciliation

Process of translating results between different accounting frameworks (e.g., IFRS 17 to regulatory reporting), identifying and explaining differences in measurement, presentation, and recognition.

Multi-GAAP Reconciliation: Clarity Across Standards, Confidence in Reporting.

We listen to the ides of the clients, their problems and the regulatory environment. These ideas drive the whole 17 step process for IFRS 17 implementation for the Company.

Development is collaborative and as we go through the ideas, we develop the processes and solutions which are shared with the client.

We adopt the design thinking philosophy and deliver the results in small increments allowing the client to discuss internally, develop prototypes and march forward with confidence.

We help client understand the results in a simple way and implement these within the organization. We can work with the training and operational teams to validate the results.

The four steps process

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THE MAKING OF IFRS-17.com

IFRS-17.com emerged from industry practitioners' firsthand experience with inefficient adoption processes. Recognizing the complexity insurers face with IFRS 17 implementation – from data architecture challenges to actuarial-finance alignment – we developed a structured methodology that transforms adoption from overwhelming to manageable.

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- ✓ Training in IFRS 17
- ✓ Strategy consultation
- ✓ Peer review of technical papers
- ✓ Actuarial modelling
- ✓ Audit support and reviews
- ✓ Data Analytics and AI Integration
- ✓ System Integration Support

What we offer

services

"We offer training and consulting services around our 17-step methodology. This involves peer review of documents, data analytics, audit reviews and actuarial aspects."

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